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SUBJECT: Economic update - Guatemala: January 25- February 8, 2006

Summary

1. US Company to lose Venezuelan Oil Source
2. Business Climate Indicator Puts Guatemala on Top
3. Financial Crimes Conference to Prevent Money Laundering
4. Airport Renovations Stalled by Political Fighting
5. Investigating Investment Opportunities in Renewable Energy
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1. US Company to lose Venezuelan Oil Source

(SUB) The Minister of Energy and Mines, Luis Ortiz, requested a meeting with EmbOff the cut-off by Venezuela of Orimulsion to Duke Energy. Venezuela is the sole producer of this fuel, and Duke's generators are calibrated to use it. The Minister had traveled to Venezuela to request that supplies continue. He told his Venezuelan counterpart that this request was not to help Duke Energy, but to benefit Guatemala. (Note: Duke Energy is the largest private supplier of electricity in Guatemala.) He stressed that the loss of this fuel source would cause hardship not only for the company, but also the people of Guatemala, and place more political pressure on the government to lower energy prices. Minister Ortiz said that his request was denied. He emphasized that he does not want to see Duke Energy fail, and will do what he can to waive any fines Duke Energy might incur from their failure to comply with GOG contractual agreements. However, he also said that he hopes that Duke realizes that they were in a precarious situation depending on only one fuel source, and unfortunately lost in the wager between cheap fuel and higher profits.

2. Business Climate Indicator Puts Guatemala on Top

(SBU) In a January 30 report by the Latin American Couriers Association (CLADEC) on regional customs clearing times for express shipments Guatemala came out on top. Clearing times at Guatemala City's international airport average about 90 minutes, far less than the 600-minute regional average and below levels required for CAFTA compliance. CLADEC President Karla Mata (FedEx) has been working with the Guatemalan Competitiveness Commission on improvements in Customs service and turnaround times. Privately, Mata, who also represents ocean shipping, praises the Tax Director, Carolina Roca, and the current government's work on customs in Guatemala City. However, she laments that corruption and incompetence continue to plague seaport and land border customs operations, where clearance times can still take several days.

3. Financial Crimes Conference to Prevent Money Laundering

On January 23, Office of Foreign Assets Control Attach John Baxter and IRS-CI Attach Angel Arroyo participated in a financial crimes conference hosted by the Guatemalan Banker's Association and the Superintendent of Banks. The conference was roughly timed to coincide with the announcement of new terrorism finance regulations, including improved Know Your Customer policies for international transfers (including remittances). Attendance was strong with over 250 people, including financial sector compliance agents and approximately 40 representatives from the Public Ministry. Baxter and Arroyo were able to answer many questions and network with the attendees. They also held meetings with the Financial Intelligence Unit (IVE) and the new NAS and DEA supported Financial Analyses Unit (UAF) in the Public Ministry.

14. Airport Renovations Stalled by Political Fighting

(SBU) The GOG recently announced initiation of a \$40 million renovation of Guatemala's international airport. The plan is the first part of a \$65 million civil aviation overhaul that includes the creation of new international airports and upgrades to existing facilities. Work was set to commence the second week of January, but Guatemala City's mayor and former President, Alvaro Arzu, began a court battle over construction licenses and other renovation technicalities. His publicly stated opposition comes from his desire to use disputed land for a city park, and his contention that civil aviation authorities have ignored city-licensing processes. However, he has long been at odds with Infrastructure Minister Castillo and President Berger over the lack of central government resources spent on city infrastructure. Arzu complains that Berger ignores the capital city, in contrast to the mid-90s, when he was President and Berger was Mayor and far more resources were spent on capital city improvements. Airport renovations will likely move ahead over the Mayor's objections; however he has already succeeded in embarrassing the administration and stealing any glory from the commencement of one of its most ambitious infrastructure projects.

15. Investigating Investment Opportunities in Renewable Energy

(SBU) The week of January 31, the US Hydropower Council for International Development led a team of private investors to Guatemala to seek opportunities. The executives, who represented various US companies, saw tremendous potential in the Guatemalan market. However, an ongoing case involving one US hydropower project (Rio Hondo) that got entangled in legal and constitutional issues, and municipal politics concerned the investors. It is hoped that the Constitutional Court will soon decide on this issue, which has dragged on for several months, clearing the way for more investment in renewable energy. Some experts predict that if there are no new investments in the energy sector soon, Guatemala will face a major energy crisis in the next 12 to 18 months.

16. Agriculture Market Surges

(U) Guatemala suffered a major hit to its agriculture market by tropical storm Stan in late 2005. However, market data for agricultural exports improved over the last three years. Revenue from agricultural sales increased by US\$ 18.9 million to a total of US\$ 68.3 million last year. Already for the first two weeks of this year revenue is reported at US\$ 7.6 million, which puts the industry on track to surpass the all time high of last year.

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